CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Northern Ontario

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New Home Market

Sudbury Starts Peaking, Thunder Bay's Dipping

The City of Greater Sudbury continues to enjoy strong housing conditions in 2006 whereas Northern Ontario's other Census Metropolitan Area, Thunder Bay is looking at a second consecutive year of home start declines. With 172 single home starts in the third quarter, up 32 per cent from last year, CMHC is forecasting 430 single-detached starts and 30 multi-family starts for a total of 460 Greater Sudbury starts. A further 470 total home starts are anticipated in 2007. After recording 227 starts in 2005 in Thunder Bay, only 170 will start in 2006, comprised of 160 single-detached units and 10 multi-family units. A further 200 homes will start in 2007 made up of 150 single-detached and 50 multi-family units.

Employment has been trending up since 2000 in Greater Sudbury providing solid basis for housing

Figure 1

Resales Will Rise in Sudbury but Fall in Thunder Bay

(f) CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only.
Source: Sudbury REB, Thunder Bay REB, CMHC

Table of contents

1 **New Home Market**
Sudbury Starts Peaking, Thunder Bay's Dipping

2 **Resale Market**
Sudbury Sellers', Thunder Bay Balanced

3 **Economic Trends**
Sudbury Experiences Job Growth... Thunder Bay, Job Losses
Mortgage Rates Have Peaked

5 **Outlook Summary**

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Figure 2

Last data point is Sept 2006
Source: Sudbury Real Estate Board, CMHC.

market activity. The buoyant mining and mining supply sector have been key factors in the employment upswing. Greater Sudbury's resale housing market continues to experience conditions that favour sellers at present. Tightness in the resale market causes prospective buyers to consider new homes which obviously impacts positively on the new home market.

Thunder Bay's new home market is in stark contrast to Greater Sudbury's. Total housing starts in Thunder Bay are off 32.6 per cent to the end of September and the third quarter was the weakest since 2001. Building permits, a precursor of future activity, give no indication that starts will pick up significantly prior to year-end.

Soft employment growth and a host of negative announcements, especially in Thunder Bay's forestry sector, have affected consumer confidence. The full effect of the spate of bad news has yet to be felt.

The latest Census Metropolitan Area migration numbers released bear out the weakening economic picture. After two positive years of in-migration, migration turned negative in 2004-05 leaving Thunder Bay behind only Saguenay in Quebec for the most net out-migration with 428 out-migrants in 2004-05.

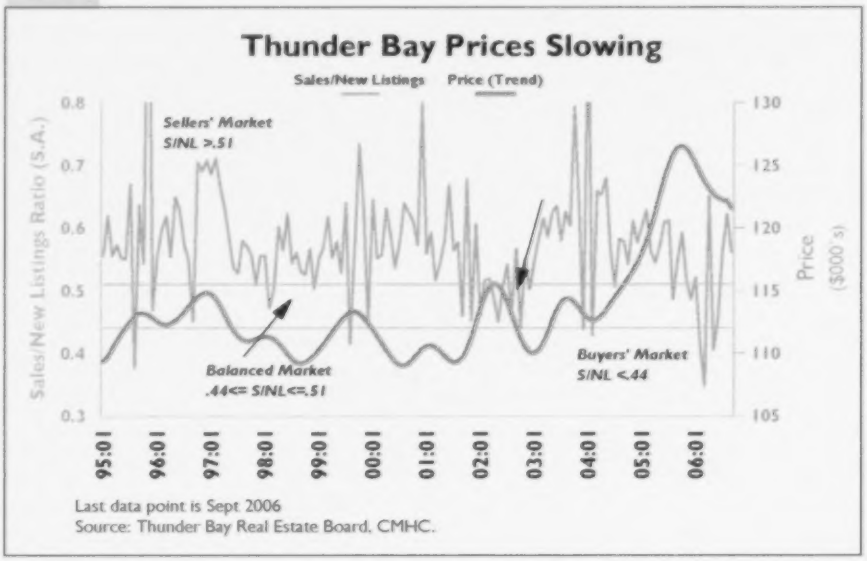
Resale Market

Sudbury Sellers', Thunder Bay Balanced

Relatively low interest rates, pent-up demand generated from job gains over the past decade in combination with the healthy in-migration from other Ontario centres will contribute to demand for resale housing. In part, Greater Sudbury's tight resale market is behind the strength in new home demand. Specifically, limited resale supply in the face of relatively strong demand is driving buyers to purchase new homes. CMHC expects 2,645 resales in 2006 in Greater Sudbury which will set another new record. Sales should rise again in 2007 to approach 2,700 sales.

Sellers' market conditions prevail in Greater Sudbury. While sales fell from last year in the third quarter, new listings advanced 3.8 per cent causing the seasonally adjusted sales to new listings ratio to slacken somewhat which may be an initial sign of market slowing (see Figure 2).

Figure 3



Last data point is Sept 2006
Source: Thunder Bay Real Estate Board, CMHC.

The sales to new listings ratio remains high, second only to Hamilton in Ontario, the low average days on market to sell a home and the high sell to list price ratio are all signs of a tight housing market in Greater Sudbury. Bidding wars have been present with anecdotal evidence of buyers paying over list price on occasion.

Greater Sudbury average resale prices are already up ten per cent to the end of the third quarter. Prices will close the year up 10.0 per cent in 2006. A flattening sales to new listings ratio suggests prices will moderate and grow by five per cent in 2007.

Thus far, Thunder Bay sales in 2006 are off 4.0 per cent to September 30th. Sales are expected to finish the year off ten per cent and fall another four per cent in 2007.

New listings, on the other hand are well above of 2005 levels, up nearly eight per cent thus far. They provide early evidence of the impact of forest sector weakness. Move-down buyers, or those households planning to leave Thunder Bay, may be fuelling the increase in new listings.

A faltering sales to new listings ratio is another sign of weakening consumer confidence and a less-than-robust market. Prices are forecast to edge up 1.5 per cent in 2006 and 1.0 per cent in 2007. Sales are primarily in upper home price ranges, above traditional market ranges, skewing the Thunder Bay average up. (see Figure 3)

Economic Trends

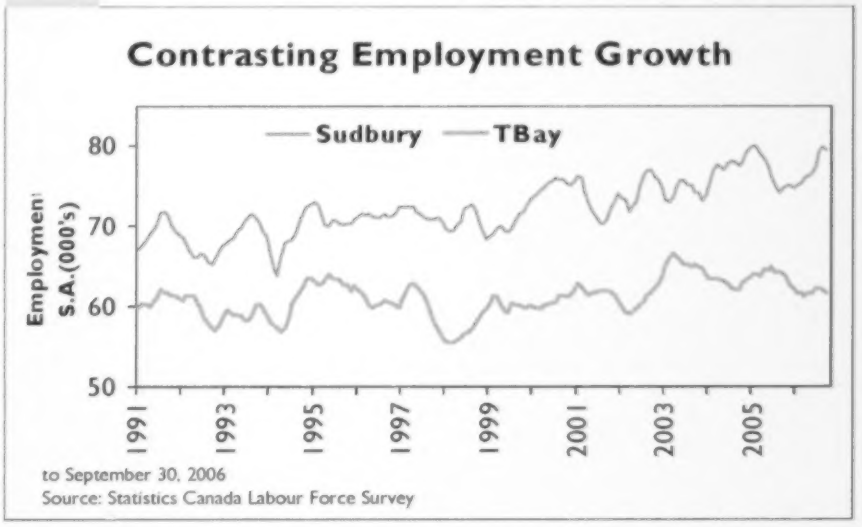
Sudbury Experiences Job Growth....Thunder Bay, Job Losses

Although volatile, the Labour Force Survey employment time series in Greater Sudbury has shown growth since the late 1990's. This run-up in job numbers since the late 1990's explains some of the strength exhibited in housing market indicators since then. Employment growth is primarily amongst the more affluent 45+ baby boomers who are looking at move-up opportunities. Employment growth in younger age groups, especially in the last couple years, has made a noteworthy contribution to rental demand. CMHC's forecast is for slight gains in employment providing the backbone for another solid year for housing indicators. In 2006 we've recovered most of those lost jobs from last year and things look good for 2007 with job gains of nearly two per cent forecast for the year ahead.

Nickel prices rocketed upwards in the third quarter but have since settled at still healthy levels. Of course, the rise of the Canadian dollar is somewhat worrisome but demand for nickel continues strong. A lot of attention has been paid to the Inco and Falconbridge ownership question this year and rightly so but the affects of moves this year and next will not have a huge effect on indicators in the short term. Nobody has moved the rich ore bodies upon which Sudbury sits and so this will be key in the short term. Production decisions and refining decisions will affect more medium to long term scenarios for the local housing market.

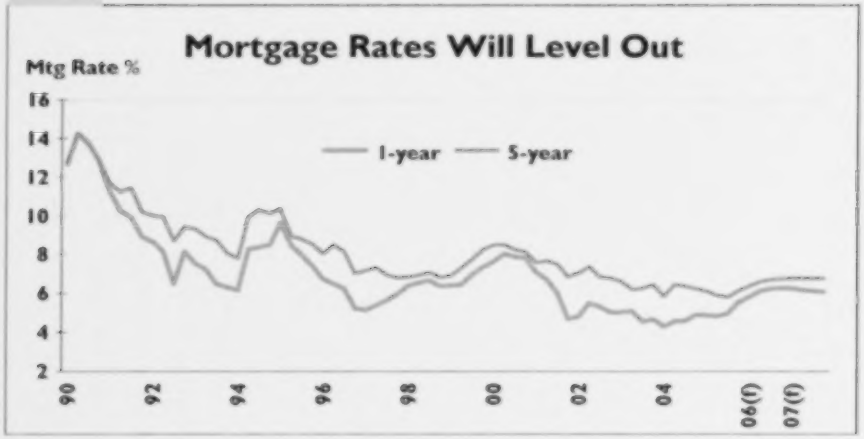
In Thunder Bay, employment growth registered in 2005 has disappeared in 2006 with levels presently reminiscent of 2002. Employment to September 30th is off 3.9 per cent according to Statistics Canada's Labour Force Survey. High energy costs, a stronger Canadian dollar and wood fibre availability issues and the ongoing Canada-U.S. softwood

Figure 4



to September 30, 2006
Source: Statistics Canada Labour Force Survey

Figure 5



lumber dispute are hampering Thunder Bay's economy. CMHC is calling for a slight recovery in jobs in 2007.

A new $710 million TTC subway contract at Bombardier and the announcement of the joint venture Molecular Medicine Research Centre spearheaded by the Thunder Bay Regional Health Sciences Centre, are creating optimism in the local economy but the overarching sentiment is one of weak consumer confidence given the spate of negative announcements primarily focussed on the forest products industry.

Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

OUTLOOK SUMMARY

Northern Ontario

RESALE MARKET	2004	%chg	2005	%chg	2006(f)	%chg	2007(f)	%chg
Sudbury MLS sales*	2,500	14.1	2,593	3.7	2,645	2.0	2,685	1.5
Sudbury MLS average price	$122,866	4.6	$134,440	9.4	$147,900	10.0	$155,300	5.0
Sudbury New Listings (Total)	3,906	6.6	3,993	2.2	4,073	2.0	4,114	1.0
Thunder Bay MLS sales**	1,567	6.6	1,562	-0.3	1,406	-10.0	1,352	-3.8
Thunder Bay MLS average price	$115,262	0.5	$126,698	9.9	$128,598	1.5	$129,884	1.0
Thunder Bay New Listings (Total)	2,616	1.7	2,788	6.6	2,927	5.0	2,986	2.0
NEW HOME MARKET	**2004**	**%chg**	**2005**	**%chg**	**2006(f)**	**%chg**	**2007(f)**	**%chg**
Sudbury Starts								
Total	388	26.8	400	3.1	460	15.0	470	2.2
Single family	374	26.4	384	2.7	430	12.0	440	2.3
Multiple (semi, row, apt)	14	40.0	16	14.3	30	87.5	30	0.0
Thunder Bay Starts								
Total	287	36.0	227	-20.9	170	-25.1	200	17.6
Single family	241	21.1	179	-25.7	160	-10.6	150	-6.3
Multiple (semi, row, apt)	46	283.3	48	4.3	10	-79.2	50	400.0
RENTAL MARKETS	**2004**	**%chg**	**2005**	**%chg**	**2006(f)**	**%chg**	**2007(f)**	**%chg**
Sudbury Vacancy rate (Oct. '05)	2.6%	n/a	1.6%	n/a	1.0%	n/a	1.5%	n/a
Average rent, two-bed. apt.	$655	0.6	$668	2.0	$684	2.4	$698	2.0
Thunder Bay Vacancy rate (Oct. '05)	5.0%	n/a	4.6%	n/a	5.0%	n/a	5.5%	n/a
Average rent, two-bed. apt.	$679	1.0	$689	1.5	$696	1.0	$706	1.4
ECONOMIC OVERVIEW	**2004**	**%chg**	**2005**	**%chg**	**2006(f)**	**%chg**	**2007(f)**	**%chg**
Mortgage rate, 5 year	6.23	n/a	5.99	n/a	6.67	n/a	6.00-7.00	n/a
Sudbury Net Migration***	321	n/a	519	61.7	500	-3.7	500	0.0
Thunder Bay Net Migration * **	107	n/a	-428	-500.0	-250	-41.6	-250.0	0.0
Sudbury Employed (Annual avg.)	77,700	4.2	76,700	-1.3	77,000	0.4	78,500	1.9
ER 590 **** Employed	255,200	0.5	256,400	0.5	n/a	n/a	n/a	n/a
Thunder Bay Employed (Annual avg.)	63,000	-4.3	63,900	1.4	61,500	-3.8	62,000	0.8
ER 595 ***** Employed	111,900	-4.8	108,800	-2.8	n/a	n/a	n/a	n/a

* Based on SREB/TBREB (Sudbury/Thunder Bay Real Estate Board) territories.

** Based on TBREB (Thunder Bay Real Estate Board) Sales in District 1, Subdistricts 1-32)

*** Source of Migration data is Statistics Canada Small Area Data Division

**** Economic Region 590 includes the Northeastern Onario Districts excluding Sudbury CMA

***** Economic Region 595 includes the Northwestern Ontario Districts excluding Thunder Bay CMA

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